



House of Representatives

General Assembly

File No. 533

February Session, 2004

House Bill No. 5476

House of Representatives, April 8, 2004

The Committee on Finance, Revenue and Bonding reported through REP. STILLMAN of the 38th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

**AN ACT CONCERNING AN INCOME TAX DEDUCTION FOR
CONTRIBUTIONS TO CONNECTICUT HIGHER EDUCATION TRUST
ACCOUNTS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of
2 section 12-701 of the general statutes, as amended by section 13 of
3 public act 03-225, is repealed and the following is substituted in lieu
4 thereof (*Effective July 1, 2004, and applicable to taxable years commencing*
5 *on or after January 1, 2005*):

6 (B) There shall be subtracted therefrom (i) to the extent properly
7 includable in gross income for federal income tax purposes, any
8 income with respect to which taxation by any state is prohibited by
9 federal law, (ii) to the extent allowable under section 12-718, exempt
10 dividends paid by a regulated investment company, (iii) the amount of
11 any refund or credit for overpayment of income taxes imposed by this
12 state, or any other state of the United States or a political subdivision

13 thereof, or the District of Columbia, to the extent properly includable
14 in gross income for federal income tax purposes, (iv) to the extent
15 properly includable in gross income for federal income tax purposes
16 and not otherwise subtracted from federal adjusted gross income
17 pursuant to clause (x) of this subparagraph in computing Connecticut
18 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
19 extent any additional allowance for depreciation under Section 168(k)
20 of the Internal Revenue Code, as provided by Section 101 of the Job
21 Creation and Worker Assistance Act of 2002, for property placed in
22 service after December 31, 2001, but prior to September 10, 2004, was
23 added to federal adjusted gross income pursuant to subparagraph (A)
24 (ix) of this subdivision in computing Connecticut adjusted gross
25 income for a taxable year ending after December 31, 2001, twenty-five
26 per cent of such additional allowance for depreciation in each of the
27 four succeeding taxable years, (vi) to the extent properly includable in
28 gross income for federal income tax purposes, any interest income
29 from obligations issued by or on behalf of the state of Connecticut, any
30 political subdivision thereof, or public instrumentality, state or local
31 authority, district or similar public entity created under the laws of the
32 state of Connecticut, (vii) to the extent properly includable in
33 determining the net gain or loss from the sale or other disposition of
34 capital assets for federal income tax purposes, any gain from the sale
35 or exchange of obligations issued by or on behalf of the state of
36 Connecticut, any political subdivision thereof, or public
37 instrumentality, state or local authority, district or similar public entity
38 created under the laws of the state of Connecticut, in the income year
39 such gain was recognized, (viii) any interest on indebtedness incurred
40 or continued to purchase or carry obligations or securities the interest
41 on which is subject to tax under this chapter but exempt from federal
42 income tax, to the extent that such interest on indebtedness is not
43 deductible in determining federal adjusted gross income and is
44 attributable to a trade or business carried on by such individual, (ix)
45 ordinary and necessary expenses paid or incurred during the taxable
46 year for the production or collection of income which is subject to
47 taxation under this chapter but exempt from federal income tax, or the

48 management, conservation or maintenance of property held for the
49 production of such income, and the amortizable bond premium for the
50 taxable year on any bond the interest on which is subject to tax under
51 this chapter but exempt from federal income tax, to the extent that
52 such expenses and premiums are not deductible in determining federal
53 adjusted gross income and are attributable to a trade or business
54 carried on by such individual, (x) (I) for a person who files a return
55 under the federal income tax as an unmarried individual whose
56 federal adjusted gross income for such taxable year is less than fifty
57 thousand dollars, or as a married individual filing separately whose
58 federal adjusted gross income for such taxable year is less than fifty
59 thousand dollars, or for a husband and wife who file a return under
60 the federal income tax as married individuals filing jointly whose
61 federal adjusted gross income for such taxable year is less than sixty
62 thousand dollars or a person who files a return under the federal
63 income tax as a head of household whose federal adjusted gross
64 income for such taxable year is less than sixty thousand dollars, an
65 amount equal to the Social Security benefits includable for federal
66 income tax purposes; and (II) for a person who files a return under the
67 federal income tax as an unmarried individual whose federal adjusted
68 gross income for such taxable year is fifty thousand dollars or more, or
69 as a married individual filing separately whose federal adjusted gross
70 income for such taxable year is fifty thousand dollars or more, or for a
71 husband and wife who file a return under the federal income tax as
72 married individuals filing jointly whose federal adjusted gross income
73 from such taxable year is sixty thousand dollars or more or for a
74 person who files a return under the federal income tax as a head of
75 household whose federal adjusted gross income for such taxable year
76 is sixty thousand dollars or more, an amount equal to the difference
77 between the amount of Social Security benefits includable for federal
78 income tax purposes and the lesser of twenty-five per cent of the Social
79 Security benefits received during the taxable year, or twenty-five per
80 cent of the excess described in Section 86(b)(1) of the Internal Revenue
81 Code, (xi) to the extent properly includable in gross income for federal
82 income tax purposes, any amount rebated to a taxpayer pursuant to

83 section 12-746, (xii) to the extent properly includable in the gross
 84 income for federal income tax purposes of a designated beneficiary,
 85 any distribution to such beneficiary from any qualified state tuition
 86 program, as defined in Section 529(b) of the Internal Revenue Code,
 87 established and maintained by this state or any official, agency or
 88 instrumentality of the state, (xiii) to the extent properly includable in
 89 the gross income for federal income tax purposes, an amount up to five
 90 thousand dollars for contributions to any qualified state tuition
 91 program, as defined in Section 529(b) of the Internal Revenue Code,
 92 established and maintained by this state or any official, agency or
 93 instrumentality of the state, (xiv) to the extent properly includable in
 94 gross income for federal income tax purposes, the amount of any
 95 Holocaust victims' settlement payment received in the taxable year by
 96 a Holocaust victim, and [(xiv)] (xv) to the extent properly includable in
 97 gross income for federal income tax purposes of an account holder, as
 98 defined in section 31-51ww, interest earned on funds deposited in the
 99 individual development account, as defined in section 31-51ww, of
 100 such account holder.

This act shall take effect as follows:	
Section 1	<i>July 1, 2004, and applicable to taxable years commencing on or after January 1, 2005</i>

FIN *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note**State Impact:**

Agency Affected	Fund-Effect	FY 06\$	FY 07\$	FY 08\$
Revenue Serv., Dept.	GF - Revenue Loss	7.9 million	8.9 million	10.4 million

Note: GF=General Fund

Municipal Impact: None**Explanation**

The estimates are based on the following assumptions:

1. The number of Connecticut Higher Education Trust (CHET) accounts is projected at 46,000 for 2005, 54,000 for 2006, and 61,000 for 2007;
2. The average annual contribution per CHET account of \$3,800 to \$4,000 per year;
3. A marginal tax rate of 4.7% (combination of 3% rate, 5% rate, and the property tax credit).

OLR Bill Analysis

HB 5476

AN ACT CONCERNING AN INCOME TAX DEDUCTION FOR CONTRIBUTIONS TO CONNECTICUT HIGHER EDUCATION TRUST ACCOUNTS**SUMMARY:**

This bill allows Connecticut taxpayers to deduct up to \$5,000 in annual contributions to the Connecticut Higher Education Trust (CHET) when calculating Connecticut adjusted gross income (AGI), thus exempting the contributions from the state income tax. CHET is the state's college tuition savings plan.

Federal law already excludes interest and other investment earnings on qualified state college savings plans (known as "529 Plans") from federal AGI, thus making those earnings exempt from both federal and Connecticut income taxes. In addition, distributions to a 529 plan beneficiary are not subject to either federal or Connecticut income taxes, as long as they are used for tuition or qualified related expenses at an eligible educational institution.

EFFECTIVE DATE: July 1, 2004 and applicable to tax years beginning on or after January 1, 2005.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Report

Yea 30 Nay 14